

Message Text

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ACTION AF-10

INFO OCT-01 EUR-12 ISO-00 AGRE-00 INT-05 AID-05
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FM AMEMBASSY KINSHASA
TO SECSTATE WASHDC 3537
INFO AMEMBASSY BRUSSELS
AMEMBASSY BUJUMBURA
AMEMBASSY KIGALI
AMEMBASSY LONDON
AMEMBASSY PARIS

C O N F I D E N T I A L SECTION 1 OF 2 KINSHASA 4476

DEPT PASS COMMERCE, EXIM, TREASURY

E.O. 11652: GDS

TAGS: EFIN

SUBJ: EXPORT LEAKAGE AND THE SECOND IMF STANDBY

1. SUMMARY: EXPORT LEAKAGE IS A SERIOUS IMPEDIMENT TO ECONOMIC STABILIZATION. SMUGGLING, UNDER-INVOICING AND OTHER FORMS OF EXPORT LEAKAGE MAY HAVE EXCEEDED \$100 MILLION IN 1976. THE INCENTIVES FOR EXPORT LEAKAGE ARE ATTRACTIVE AND MAY BECOME MORE SO AND THE PARTICIPANTS INCLUDE HIGH MEMBERS OF THE ZAIRIAN ELITE. THE IMF EXPECTS ZAIRE TO INSURE FULLER REPATRIATION OF EXPORT RECEIPTS IN 1977 AND CONSIDERS THIS A FUNDAMENTAL ASPECT OF THE STABILIZATION PROGRAM. THE GOZ HAS TAKEN SIGNIFICANT MEASURES TO REDUCE EXPORT LEAKAGE; BUT GIVEN THE HIGHLY POLITICAL CHARACTER OF THE COFFEE INDUSTRY, REFORM WILL NOT BE EASY. IN FACT, COFFEE MAY PROVIDE THE LITMUS TEST OF ZAIRE'S CAPACITY TO IMPLEMENT REFORM.
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END SUMMARY.

2. THE RECENTLY RELEASED IMF STANDBY AND COMPENSATORY FINANCING REPORTS HAVE HIGHLIGHTED THE PROBLEM OF EXPORT LEAKAGE. IN REVIEWING ZAIRE'S PERFORMANCE UNDER THE FIRST STANDBY AGREEMENT, THE IMF NOTED THAT "A SIZEABLE PROPORTION OF EXPORT RECEIPTS WAS NOT REPATRIATED, ESPECIALLY IN THE CASE OF COFFEE AND PETROLEUM".

PETROLEUM, OF COURSE, IS A SPECIAL CASE IN THAT UNDER ITS CONTRACT WITH THE GOZ, GULF HAD THE RIGHT TO RECOVER SUBSTANTIAL PORTIONS OF ITS INVESTMENT IN THE EARLY YEARS. THESE PROVISIONS ARE PRESENTLY BEGIN RENEGOTIATED. MOST OTHER EXPORT LEAKAGE, HOWEVER, OCCURS AS A RESULT OF VARIOUS ILLEGAL ACTIVITIES, NOT LEGAL CONTRACTS. THE MOST PROMINENT CAUSES OF EXPORT LEAKAGE ARE SMUGGLING, THE UNDER-INVOICING OF EXPORT SHIPMENTS AND THE SIPHONING OFF BY GOVT OFFICIALS OF THE EXPORT RECEIPTS GARNERED BY GOVT COMPANIES AND MARKETING AGENCIES.

3. DIAMONDS, GOLD, COFFEE AND PALM OIL ARE AMONG THE COMMODITIES MOST REGULARLY SMUGGLED OUT OF ZAIRE. DIAMONDS FROM THE KASAI FIELDS ARE MARKETING VIA BUJUMBURA AND BRAZZAVILLE. MOST OF THESE DIAMONDS ARE DUG BY SMALL DIGGERS, BUT IT IS POSSIBLE THAT SOME OF THE ILLICIT TRADE INVOLVES DIAMONDS PRODUCED BY THE GOVT OWNED DIAMOND MINING COMPANY MIBA. GOLD SMUGGLING OCCURS IN THE KIVU REGION WHERE SMALL SCALE ILLICIT DIGGERS PRODUCE THE GOLD AND REPORTEDLY MARKET IT IN EAST AFRICA. COFFEE SMUGGLING IS CONCENTRATED IN THE KIVU AND HAUT ZAIRE REGIONS AND PALM OIL IN BAS ZAIRE WHERE IT IS SMUGGLED INTO CABINDA.

4. UNDER-INVOICING OCCURS WHEN AN EXPORTER ARRANGES WITH A BUYER TO PLACE AN ARTIFICIALLY LOW OFFICIAL BUYING PRICE ON THE OFFICIAL SALES DOCUMENTATION AND THEN ACCEPTS A SUPPLEMENTARY PAYMENT WHICH IS NOT CONTROLLED BY ZAIRIAN EXCHANGE AUTHORITIES. UNDER-INVOICING WAS APPARENTLY ENDEMIC IN THE ZAIRIAN COFFEE INDUSTRY IN 1976, AS COFFEE PRICES ROSE DURING THE FIRST SEMESTER OF 1976, THE BANK OF ZAIRE NOTED THAT RECEIPTS FROM COFFEE WERE NOT COMMENSURATE WITH PREVAILING WORLD PRICES. THE BANK TOOK MEASURES TO ENSURE CONFIDENTIAL

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THAT NEW CONTRACTS MORE ACCURATELY REFLECTED WORLD PRICES BUT AGREED THAT OLD CONTRACTS (AT LOWER PRICES) SHOULD BE HONORED. ZAIRIAN EXPORTERS THEN CONSPIRED WITH BUYERS TO POST-DATE NEW CONTRACTS TO GIVE THE APPEARANCE THAT THEY WERE OLD CONTRACTS. ANOTHER APPROACH MAY HAVE BEEN FOR BUYERS TO CLAIM QUALITY OR QUANTITY DISCREPANCIES UPON RECEIPT AND REDUCE PAYMENT ACCORDINGLY. SINCE THE GOZ HAS A WEAK CAPACITY TO INSPECT EXPORT SHIPMENTS AT THEIR POINT OF DESTINATION, THESE CLAIMS COULD NOT BE CONTESTED. THE DIFFERENCE (IN FOREIGN EXCHANGE) WAS POCKETED BY EXPORTERS. UNDER-INVOICING IS THOUGHT TO BE A PROBLEM IN SOME OTHER EXPORT INDUSTRIES AS WELL, BUT COFFEE WAS THE MOST SIGNIFICANT.

5. A THIRD TECHNIQUE FOR SIPHONING OFF EXPORT EARNINGS IS THE QUASI-EMBEZZLEMENT BY PUBLIC OFFICIALS OF THE FOREIGN EXCHANGE HOLDINGS OF OFFICIAL MARKETING AGENCIES OR OTHER GOVT COMPANIES. THE CASE WITH WHICH WE ARE MOST FAMILIAR IS SOZACOM, THE ZAIRIAN MINERALS MARKETING AGENCY. ACCORDING TO RELIABLE REPORTS, INVESTIGATION INTO THE FINANCES OF SOZACOM UNCOVERED THE FACT THAT COMPANY FUNDS HAD BEEN USED TO BUY VILLAS IN EUROPE AND TO MAKE

LUCRATIVE CONSULTING FEE PAYMENTS TO ASSOCIATES OF BISENGIMANA. ALTHOUGH THE DETAILS ARE MURKY, IT APPEARS THAT SUCH PRACTICES HAVE BEEN REPLICATED BY OFFICIALS OF OTHER STATE ENTERPRISES OR MARKETING AGENCIES.

6. IT IS DIFFICULT TO SAY WITH CERTAINTY HOW MUCH REVENUE ZAIRE HAS LOST FROM FRAUDULENT EXPORT LEAKAGE, BUT THE TOTAL IN 1976 MAY HAVE EXCEEDED \$100 MILLION. GOV SAMBWA HAS CONFIRMED REPORTS FROM EUROPEAN COFFEE IMPORTERS THAT 30 PERCENT OF ZAIRE'S COFFEE RECEIPTS WERE NOT REPATRIATED IN 1976. THIS WOULD IMPLY A LEAKAGE OF AROUND \$50 MILLION FROM COFFEE. OTHER ESTIMATES WOULD PUT THE LEAKAGE FROM COFFEE CLOSER TO \$100 MILLION. IN ANY EVENT, WHEN LEAKAGE FROM DIAMONDS, GOLD, PALM OIL AS WELL AS LEAKAGE FROM GOVT MARKETING AGENCIES IS TAKEN INTO ACCOUNT, THE TOTAL FOR 1976 MAY HAVE EXCEEDED \$100 MILLION. IT MAY BE WORTH EMPHASIZING AT THIS POINT THAT NOTWITHSTANDING IMF COMMENTS ABOUT PRICES FOR ZAIRIAN COFFEE LAGGING THE WORLD MARKET BY SIX MONTHS, WE
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CAN FIND NO EVIDENCE THAT THIS HAS BEEN TRUE FOR MARKET TRANSACTIONS, AS OPPOSED TO PRICES, AS IMPLIED BY RECEIPTS REALIZED BY THE BANK OF ZAIRE). AS CAN BE SEEN FROM THE FOLLOWING TABLE, WHICH COMPARES CIF PRICES IN PARIS FOR ZAIRIAN ROBUSTA WITH CIF PRICES FOR ROBUSTA IN NEW YORK, ZAIRIAN COFFEE HAS FAIRLY CLOSELY FOLLOWED THE TREND OF WORLD MARKET PRICES.
COFFEE PRICES IN \$US/LB PER FRENCH TRADE JOURNAL MARCHES TROPICAUX

	JUNE 22	SEPT 21	DEC 21	MAR 29
	1976	1976	1976	9177
NEW YORK ROBUSTA	1.34	1.36	2.10	3.18
ZAIRIAN ROBUSTA				
PARIS	1.18	1.31	1.92	3.16

7. THE INCENTIVES FOR EXPORT LEAKAGE ARE STRONG AND INHERENT TO ZAIRE'S PRESENT POLITICAL AND ECONOMIC PREDICAMENT. THE EXTREME SHORTAGE OF CRITICAL IMPORTED GOODS AND THE OVERVALUATION OF THE ZAIRIAN CURRENCY GUARANTEE HIGH PROFITS FOR THE EXPORTER WHO OBTAINS FOREIGN EXCHANGE THROUGH SMUGGLING OR UNDER-INVOICING. IN ADDITION TO TAKING ADVANTAGE OF BLACK MARKET EXCHANGE RATES, THE SMUGGLER ALSO EVADES PAYMENT OF EXPORT TAXES AND HIDES INCOME WHICH OTHERWISE MIGHT BE TAXED OR EXTORTED. WITH THE IMPLEMENTATION OF INCREASED COFFEE TAXES AND THE CONTINUED SCARCITY OF IMPORTED GOODS THROUGH 1977, THESE ECONOMIC INCENTIVES FOR SMUGGLING OR UNDER-INVOICING CAN BE EXPECTED TO INTENSIFY.

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R 111445Z MAY 77
FM AMEMBASSY KINSHASA
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AMEMBASSY KIGALI
AMEMBASSY LONDON
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8. A SUBSTANTIAL PROTION OF EXPORT LEAKAGE DOES NOT RETURN TO
ZAIRIAN ECONOMY AT ALL. THESE FUNDS ARE INVESTED OVERSEAS WHERE
THEY PROVIDE SECURITY, PARTICULARLY FOR POLITICAL FIGURES. GIVEN
THE THREAT OF POLITICAL INSTABILITY DRAMATIZED MOST VIVIDLY
BY THE SHABA INVASION, IT IS LIKELY THAT THE POLITICAL INCENTIVE
FOR EXPORT LEAKAGE WILL CONTINUE TO INTENSIFY AS WELL. A LOOK AT THE
LIST OF OFFICIAL COFFEE EXPORTERS, FOR EXAMPLE, SHOWS THAT THEY
INCLUDE POLITICALLY PROMINENT INDIVIDUALS, A NUMBER OF WHOM
MOBUTU HAS FIRED AND SUBSEQUENTLY CO-OPTED BY PROVIDING OPPORTUNITIES
OF ECONOMIC ADVANCEMENT.

--LENGEMA: MOBUTU'S AMB AT LARGE; FORMER SECSTATE FOR FONAFF UNDER
GIZANDA AND A DIRECTOR OF TECHNICAL ASSISTANCE UNDER ADOULA

--RWAKABUBA: BISNEGIMANA'S BROTHER

--NGAZAYO: BISENGIMANA CONFIDANTE

--BOMBOKO: FORMER MINFONAFF AND JUSTICE AND FORMER AMB TO US
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--NDJOLI-BALANGA: FORMER MIN OF TOURISM AND HIGH COMMISSIONER FOR
THE CIVIL SERVICE AND YOUTHS AND SPORTS

--NSINGA: FORMER MINISTER OF JUSTICE AND MIN OF INTERIOR -- DIS-
MISSED FROM LATTER POST FOR EMBEZZELMENT.

--DERIKOYA: DELEGUE GENERAL OF FREIGHT FORWARDING COMPANY
AMIZA; FORMER GOVERNOR OF KASAI ORIENTAL AND BAS ZAIRE;

FORMER NATIONAL SECTY OF MPR--DISMISSED FOR CORRUPTION
--UMBA DI LUTETE: AMB TO THE UN AND POLITICAL BUREAU MEMBER;
FORMER MIN OF PTT AND AGRICULTURE; FORMER MINFONAFF;
FORMER DEPUTY SECURITY CHIEF UNDER NENDAKA;
FORMER AMB TO WEST GERMANY AND SPAIN
--KITHIMA: FORMER MIN OF LABOR AND EDUCATION; FORMER MEMBER OF
BOARD OF DIRECTORS OF GECAMINE; BROTHER-IN-LAW TO ADOULA
AMONG THOSE COMPANIES (AS OPPOSED TO INDIVIDUALS) PARTICIPATING
IN THE COFFEE EXPORT BUSINESS, THE LARGEST ARE SCRIBE ZAIRE AND
CELZA, IN WHICH THE MOBUTU FAMILY HAS A PROMINENT INTEREST. IN
ADDITION, THE NATIONAL COFFEE OFFICE (HEADED BY FORMER SECURITY
CHIEF NENDAKA) WAS RESPONSIBLE FOR ROUGHLY HALF OF ALL EXPORTS.

9. THE POLITICAL IMPORTANCE OF COFFEE WAS CLEARLY DEMONSTRATED
DURING THE MONTH OF APRIL. IMF DOCUMENTS SHOW THE FUND ASKED FOR
THE "LIBRILIZATION OF THE REGIME WHICH LIMITED THE NUMBER OF
COFFEE EXPORTERS", A MEASURE CONSIDERED ESSENTIAL TO IMPROVING
THE REPATRIATION OF RECEIPTS. ACTING WITHIN THIS FRAMEWORK,
CENTRAL BANK GOV SAMBWA ANNOUNCED IN A MAR 18 LETTER TO
PRES MOBUTU (SUBSEQUENTLY PUBLISHED BY THE CHAMBER OF COMMERCE,
ANEZA) THAT HENCEFORTH ANY IMPORTER OR EXPORTER APPROVED BY THE
NATION EXECUTIVE COUNCIL COULD BECOME A COFFEE EXPORTER. SAMBWA
NOTED THAT THIS DECISION SIGNALLED A PROGRESSIVE RETURN TO A MORE
LIBERAL EXPORT REGIME FOR COFFEE. SHORTLY THEREAFTER CIT.
ESSOLOMWA, THE EDITOR OF THE KINSHASA DAILY NEWSPAPER ELIMA, WOTE
AN ARTICLE QUESTIONING WHY CERTAIN ITINERANT EXPORTERS WITH NO
PLANTATIONS AND NO LONG TERM INTEREST IN THE INDUSTRY WERE GIVEN
SPECIAL PRIORITY TO ENGAGE IN COFFEE EXPORTING. ESSOLOMWA NOTED
THAT MANY OF THESE EXPORTERS, WHO HAVE BEEN GIVEN LARGE CREDITS
BY GOVT FINANCIAL INSTITUTIONS TO EXPORT COFFEE, HAD NOT ONLY MADE
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NO OFFICIAL COFFEE EXPORTS BUT HAD ALSO FAILED TO PAY BACK THEIR
LOANS. ESSOLOMWA SAID SOME WERE USING PRESSURE TO LIMIT THE
NUMBER OF EXPORTERS TO FIVE OR TEN INDIVIDUALS. TWO DAYS LATER
THE DEPT OF AGRICULTURE (HEADED BY NEWLY-APPOINTED STATE COMM-
SSIONER SENZAYI) ANNOUNCED A COMPLETE OVERHAUL OF THE COFFEE
MARKETING SYSTEM, RESTORING TO THE NATIONAL COFFEE OFFICE (ONC)
ITS MONOPOLY OVER THE PURCHASE OF COFFEE FROM PRODUCERS AND
THE EXPORT OF COFFEE.

10. THE DECISION TO TURN COFFEE EXPORT OVER TO ONC WAS THEN HAILED
BY ESSOLOMWA IN LATER ARTICLES AS A PRAISWORTHY MOVE TO CLEAN
UP THE COFFEE INDUSTRY. GOV SAMBWA, HOWEVER, HAS INFORMED US
THAT THE ENTIRE AFFAIR WAS A SMOKESCREEN UNDER COVER OF WHICH
ESSOLOMWA AND SENZAYI INTENDED TO HAVE ONC EXPORT ON BEHALF OF A
SMALL HANDFUL OF PRIVATE INDIVIDUALS. THOSE EXPORTERS EXCLUDED
WERE FURIOUS AND SOUGHT A MEETING WITH THE PRES TO GET THIS
DECISION REVERSED.

11. AT THE SAME TIME, GOV SAMBWA REPORTEDLY POINTED OUT TO NGUZA AND BOFOSSA THAT THE DECISION WAS IN VIOLATION OF A FUNDAMENTAL UNDERSTANDING WITH THE IMF AND, IF NOT REVERSED, WOULD CAUSE THE IMF TO LOSE CONFIDENCE IN ZAIRE BEFORE THE STABILIZATION PROGRAM EVEN GOT UNDERWAY. HE ALSO NOTED THAT ONC HAD NO FUNDS TO UNDERTAKE COFFEE BUYING OPERATIONS AND THAT IT WOULD EITHER HAVE TO BORROW MASSIVELY FROM THE CENTRAL BANK TO FINANCE ITS BUYING (THUS BREAKING THE CREDIT GUIDELINES OF THE IMF) OR WOULD SIMPLY FAIL TO MARKET THE 1977. CROP. THE FORCE OF THESE ARGUMENTS, TOGETHER WITH THE PROTESTS OF PRIVATE COFFEE EXPORTERS, WAS ENOUGH TO CONVINCE PRES MOBUTU TO ORDER THE DECISION REVERSED.

12. THE FINAL OUTCOME, HOWEVER, IS NOT YET CLEAR. SENZAYI REVERSED THE DECISION TO TURN COFFEE EXPORTING OVER TO ONC BUT DID NOT ELIMINATE A REQUIREMENT FOR ONC TO VALIDATE ALL EXPORT SHIPMENTS. AS A RESULT, COFFEE IS NOT MOVING AND SAMBWA HAS URGED ONC HEAD NENDAKA TO TAKE THE INITIATIVE IN RAISING THIS PROBLEM WITH THE PRES TO INSURE THAT NENDAKA IS NOT BLAMED. MEANWHILE, THE CONFIDENTIAL

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NATIONAL SURVEILLANCE COMPANY (OZAC) IS PROMOTING THE IDEA THAT ONC SHOULD TURN OVER THE EXPORTATION AND GRADING OF COFFEE TO OZAC. OZAC WOULD ALSO LIKE TO HAVE A LARGER ROLE IN THE VERIFICATION OF EXPORT PRICES AND THE INSPECTION OF COFFEE SHIPMENTS AT THE POINT OF DESTINATION.

13. IMPROVED MANAGEMENT OF THE COFFEE INDUSTRY IS A KEY ASPECT OF THE IMF PROGRAM. APART FROM THE LIBERILIZATION OF THE EXPORT REGIME, THE BANK OF ZAIRE HAS ALSO INTRODUCED MINIMUM EXPORT TARGET PRICES. FOR EXAMPLE, AT THE END OF MARCH THE TARGET PRICE FOR A TYPICAL GRADE (N2B ROBUSTA) FOB MATADI WAS \$3.01/LB., NOT FAR BELOW THE WORLD PRICES. COFFEE REVENUES FROM THE NEW \$.075/KILO EXPORT TAX ARE VITALLY NEEDED TO MEET GOZ BUDGET TARGETS AND ELEVEN PERCENT OF COFFEE FOREIGN EXCHANGE RECEIPTS ARE BEING RESERVED TO PAY OFF ARREARS. IN ADDITION, COFFEE RECEIPTS ARE NEEDED TO FINANCE INCREASED IMPORTS IF ZAIRE IS TO AVOID A THIRD STRAIGHT YEAR OF NEGATIVE ECONOMIC GROWTH. GOV SAMBWA IS CONFIDENT THAT THE MEASURES ALREADY TAKEN WILL DRAMATICALLY IMPROVE REPATRIATION OF COFFEE RECEIPTS. HE REPORTEDLY KNOWS WHICH EXPORTERS FAILED TO REPATRIATE RECEIPTS IN 1976 AND IS PREPARED AT THE RIGHT MOMENT TO TAKE THE LIST TO THE PRESIDENT TO FORCE REPATRIATION OF THESE FUNDS.

14. IF FULL REPATRIATION OF COFFEE EXPORTS WERE ACHIEVED, THE ECONOMIC BENEFITS TO ZAIRE WOULD BE CONSIDERABLE. IF PRICES WERE TO AVERAGE \$3/LB, A ZAIRIAN EXPORT CROP OF 80,000 TO 90,000 TONS COULD BRING FOREIGN EXCHANGE RECEIPTS OF \$500-600 MILLION. WHEN IT IS CONSIDERED THAT ZAIRIAN COFFEE, UNLIKE COPPER, USES VERY FEW IMPORTED INPUTS, THE NET FOREIGN EXCHANGE GAINS FROM COFFEE IN

1977 COULD EXCEED THOSE FROM COPPER.

15. NEVERTHELESS THE REFORM OF THE COFFEE BUISNESS WILL BE NO EASY TASK. APART FROM THE EXPORTERS LISTED ABOVE, MANY OTHER MEMBERS OF THE ZAIRIAN ELITE HAVE DIRECT OR INDIRECT INTERESTS IN COFFEE THUS HAVE A STAKE IN PRESERVING THE STATUS QUO. IF THE SUPPORT
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OF THIS ELITE REMAINS VITAL TO MOBUTU'S POLITICAL SURVIVAL, IT MAY BE DIFFICULT TO FIND THE RIGHT MOMENT TO FOCUS THE PRESIDENT'S ATTENTION ON REFORM OF THE COFFEE INDUSTRY. IN FACT, BECAUSE OF ITS ECONOMIC IMPORTANCE AND POLITICAL SENSITIVITY, REFORM OF THE COFFEE INDUSTRY MAY WELL BE THE LITMUS TEST OF THE GOZ'S WILLINGNESS AND ABILITY TO IMPLEMENT WIDER RANGING ECONOMIC REFORMS.
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